

Message Text

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SUBJ: 1979 BUDGET BILL PRESENTED TO CONGRESS-BALANCED AT \$10.8BILLION

REF: CERP 0200, 0201

SUMMARY: 1979 BUDGET BILL PRESENTS BALANCED BUDGET TOTALLING BS46541
MILLION, INCLUDING BS12473MILLION FOR CAPITAL INVESTMENT. BECAUSE
1978 IS AN ELECTION YEAR, THE BUDGET IS FIRST AND FOREMOST A POLITICAL

DOCUMENT, PROVIDING FOR REDUCTIONS IN OVERALL EXPENDITURES, BORROWING
AND FUNDS EARMARKED FOR CURRENT EXPENDITURES. AT THE SAME TIME,
THE NEW GOVERNMENT TAKING OFFICE IN MARCH OF 1979 WILL PROBABLY
HAVE PRIORITIES DIFFERENT FROM THOSE OF THE PRESENT REGIME. WE WOULD
EXPECT, THEREFORE, THAT THE RECORD OF ACTUAL EXPENDITURES DURING 1979
WILL BE SUBSTANTIALLY DIFFERENT THAN THAT OUTLINED IN YESTERDAY'S
BUDGET PRESENTATION. END SUMMARY

1. ON JUNE 27, FINANCE MINISTER SILVA LUONGO PRESENTED THE DRAFT
1979 BUDGET TO THE CONGRESS. AS REPORTED IN THE PRESS, THE BUDGET
BILL PROVIDES FOR INCOME OF BS46541MILLION, INCLUDING BS39946
MILLION IN ORDINARY INCOME (DIRECT AND INDIRECT TAXES, ROYALTIES,
FEES, ETC.) AND BS6595MILLION IN EXTRAORDINARY INCOME (BORROWING
TREASURY DRAWDOWNS). THE FINANCE MINISTER ESTIMATED THAT THE
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PETROLEUM SECTOR WOULD PROVIDE BS23BILLION IN REVENUE DURING 1979,
BASED ON AN AVERAGE DAILY PRODUCTION RATE OF 2.1MILLION BARRELS.
THIS IS EQUIVALENT TO 49PERCENT OF TOTAL REVENUE, DOWN FROM 56PERCENT
IN 1977. OTHER ORDINARY INCOME IS EXPECTED TO TOTAL BS16780 MILLION,
UP FROM APPROXIMATELY BS12BILLION IN 1977. THUS THE GOVERNMENT
APPEARS TO BE MAKING PROGRESS IN ITS EFFORTS TO REDUCE ITS DEPENDENCE
ON OIL AS A SOURCE OF REVENUE.

2. WITH RESPECT TO EXTRAORDINARY INCOME, THE FINANCE MINISTER PROJECTS BS5745MILLION IN INCOME FROM BORROWING AND THE REMAINDER (APPROXIMATELY BS850MILLION) FROM DRAWDOWNS OF UNCOMMITTED TREASURY RESERVES.

3. THE BUDGET DOES NOT PROVIDE FOR AN INCREASE IN PETROLEUM SECTOR REVENUE RESULTING FROM AN INCREASE IN THE PRICE PER BARREL OF OIL. HIGHER PETROLEUM PRICES WILL ONLY INCREASE REVENUE TO THE STATE PETROLEUM CORPORATIONS WHICH IN TURN WILL USE THE FUNDS TO FINANCE NEW INVESTMENT IN THE INDUSTRY. A PRICE HIKE WQD NOT BY ITSELF INCREASE TAX REVENUES, AS TAX LEVIES ON EACH BARREL SOLD WOULD REMAIN THE SAME. ON THE OTHER HAND, THE GOV NORMALLY UNDERESTIMATES ACTUAL REVENUE IN ITS INITIAL PRESENTATION. FOR EXAMPLE, THE ORIGINAL 1977 BUDGET PRESENTATION ESTIMATED REVENUE AT ABOUT BS44BILLION; IN FACT, REVENUE IS LIKELY TO EXCEED BS50BILLION DURING THIS YEAR.

4. THE 1979 BUDGET BILL PROVIDES FOR EXPENDITURES OF BS46541 MILLION , OF WHICH 56.6PERCENT (BS26342MILLION) IS FOR CURRENT EXPENSES, 26.8PERCENT (BS12473MILLION) FOR CAPITAL EXPENDITURES AND 16.1 PERCENT (BS7493MILLION) FOR SERVICING THE PUBLIC DEBT. BY COMPARISON, IN THE 1978 BUDGET BILL, CURRENT EXPENDITURES WERE 62 PERCENT OF THE TOTAL AND AMOUNTED TO APPROXIMATELY BS25BILLION, WHILE CAPITAL EXPENDITURES AMOUNTED BS9BILLION, OR 23PERCENT OF THE TOTAL. UNCLASSIFIED

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THIS COMPARISON DOES NOT TAKE INTO ACCOUNT, OF COURSE, ADDITIONAL CREDITS THAT HAVE BEEN OR MAY BE APPROVED DURING THE COURSE OF THE 1978 FISCAL YEAR. NONETHELESS, THE BUDGET IS RESPONSIVE TO CRITICISM DURING RECENT YEARS THAT THE GOVERNMENT HAS SUCCEDED TO TEMPTATION BY ALLOWING CURRENT EXPENDITURES TO CONSUME AN EVER GROWING PERCENTAGE OF GOVERNMENT REVENUE, WHILE CAPITAL INVESTMENT GREW LESS RAPIDLY.

5. TRADITIONALLY, AS IN THE CASE OF CENTRAL GOVERNMENT INCOME, THE BUDGET PRESENTATION HAS UNDERESTIMATED TOTAL SPENDING. THE GOV TENDS TO USE ADDITIONAL CREDITS TO FINANCE ACTIVITIES NOT COVERED IN THE ORIGINAL BUDGET. AN ADDITIONAL COMPLICATING FACTOR IS THE PRESIDENTIAL ELECTIONS SCHEDULED FOR DECEMBER OF 1978. OBVIOUSLY THE NEW GOVERNMENT IS GOING TO HAVE ITS OWN IDEAS ABOUT HOW PUBLIC FUNDS MAY BEST BE UTILIZED. FOR THIS REASON ONE SHOULD EXPECT MAJOR CHANGES IN THE NATURE OF GOVERNMENT EXPENDITURES AS THE 1979 FISCAL YEAR WEARS ON.

6. SIGNIFICANT INCREASES WENT TO THE FOLLOWING MINISTRIES: MINISTRY OF THE SECRETARIAT OF THE PRESIDENCY, WHOSE APPROPRIATION IS UP 337PERCENT OVER LAST YEAR TO BS3583MILLION. THE MINISTRY HAS ASSUMED MAJOR PLANNING AND BUDGETING RESPONSIBILITIES FORMERLY

RESIDING WITH MINISTRIES SUCH AS FINANCE AND DEVELOPMENT.
MINISTRY OF FINANCE, WHOSE APPROPRIATION IS INCREASED 12.9PERCENT
TO BS9484 MILLION, LARGELY TO MEET GROWING DEBT SERVICE REQUIREMENTS.
MINISTRY OF DEVELOPMENT, WHOSE APPROPRIATION IS UP 205PERCENT TO
BS1791BILLION.
MINISTRY OF DEFENSE, WHOSE APPROPRIATION IS UP 24PERCENT OVER 1978
TO BS3032MILLION.
THE TOTALS FOR THE OTHER MINISTRIES WERE APPROXIMATELY AT THE 1978
LEVEL.

7. THE BUDGET PRESENTATION PROVIDED FOR CONTINUED INVESTMENT IN
MAJOR PROJECTS AS FOLLOWS:
BS3181MILLION TO CORPORACION VENEZOLANA DE GUAYANA, INCLUDING THE
FOLLOWING MAJOR COMPONENTS: INTERALUMINA,BS2330MILLION; VENALUM,
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BS310MILLION; EDELCA, BS114MILLION.
BS1653 MILLION TO CADAFA.
BS800 MILLION FOR THE NATIONAL RAILWAY DEVELOPMENT PROGRAM.

8. BECAUSE OF ELECTIONS SCHEDULED FOR DECEMBER OF 1978, THE
PRESENT CONGRESS IS EXPECTED TO CONCLUDE ITS DELIBERATIONS AND ADJOUR
N
ON AUGUST 15. THUS THE BUDGET BILL MUST BE REVIEWED, VETTED AND
PASSED BEFORE THE DATE. WE EXPECT THE BUDGET TO BE PASSED WITHOUT
MAJOR CHANGES.
CROWLEY

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